

India: *RBI going full throttle on liquidity; what is hindering transmission?*

03rd April 2025

BANKING RESEARCH TEAM

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- Revisions in liquidity management framework
 - The current liquidity management framework aims to align overnight call money market rate with repo rate. With volumes in other overnight markets on an uptrend, we suggest replacing call rate with SORR (Secured Overnight Rupee Rate), which is derived from TREPs and basket repo in CROMS as these segments have more than 70% weight in overnight market volumes
 - In order to develop term money market, we suggest that 15/30/45 day on-tap liquidity facility (against excess SLR) is made available on a rolling basis. The condition should be for these banks to lend to other banks in the term money markets. Hence, this will serve as the liquidity backstop for banks with surplus liquidity and help plug the wedge between ‘Haves’ and ‘Have nots’ in the banking system.
 - Given the high volatility in government balances adversely affecting banking system liquidity, we believe banks need liquidity assurance from the RBI via:
 - *Hardcoding that a certain percentage of the government balance with the RBI (at least ~50%) will always be made available as VRR*
 - *In periods of accommodative policy stance, RBI assures markets of liquidity of 1.0% of NDTL ([RBI research](#) shows that Surplus liquidity within the threshold of 1.5 per cent of NDTL, is found to pose no significant risks to inflation)*
- Other policy proposals
 - Allow estimation of CD ratio with long term borrowings (greater than a certain threshold including infra bonds) included in the denominator. This will help push banks towards including long-term borrowings in their funding plan, a mark of rising maturity in the banking system.

RBI's liquidity management framework

Objective is to align repo rate with weighted average call rate (WACR)

WACR is the single operating target and aimed to manage liquidity through various instruments without a fixed quantitative target for liquidity provision

A) Policy rate corridor

- i) Policy rate corridor is +/- 25 bps around the repo rate.
- ii) SDF : 25 bps below the repo rate,
- iii) MSF : 25 bps above the repo rate

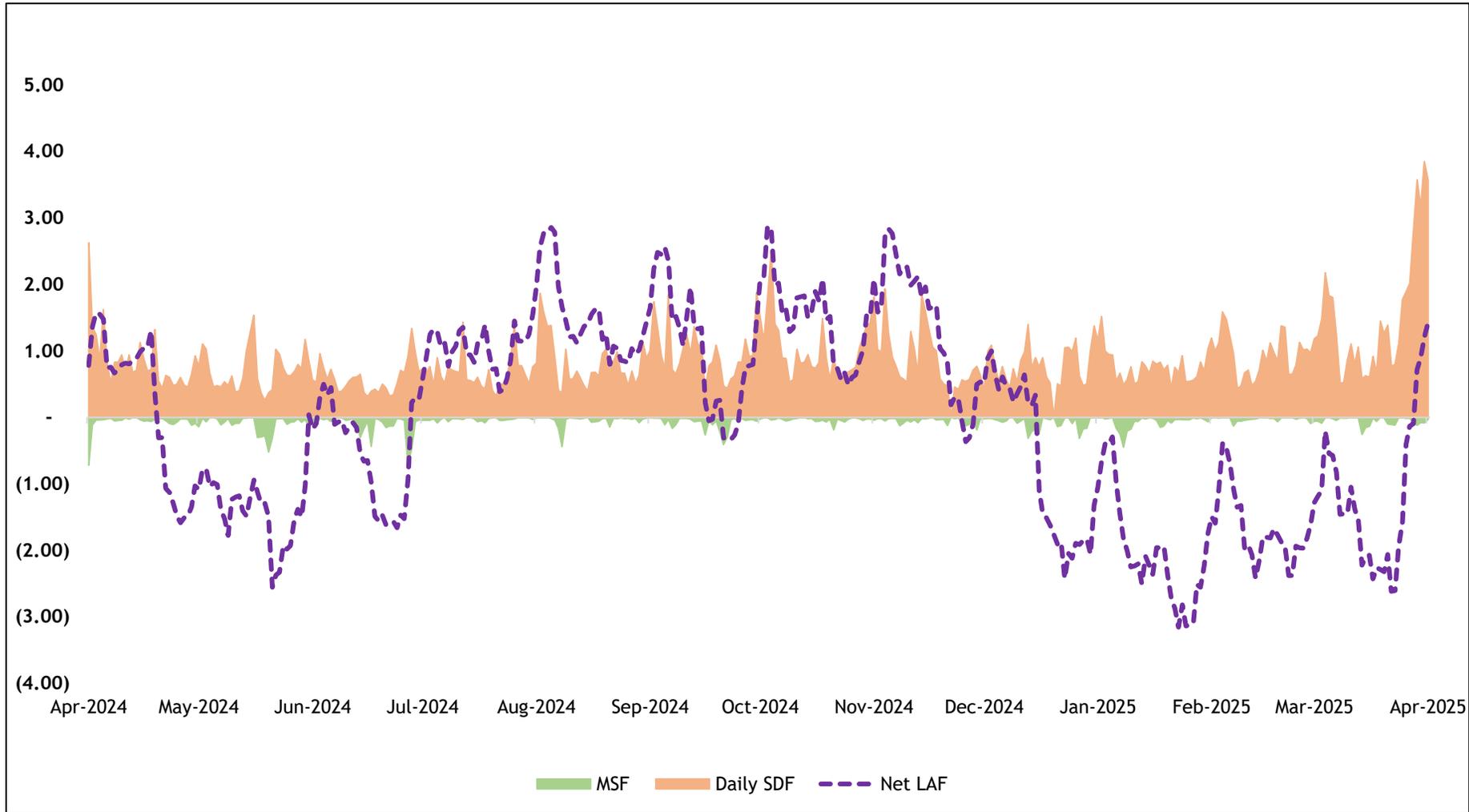
B) Liquidity Adjustment Facility

- i) Repo auctions
- ii) SDF has been introduced since 2022

C) Instruments of Liquidity management

- i) Open Market Operations
- ii) Fx Swaps
- iii) Cash Reserve Ratio
- iv) VRR/VRRR Auctions of various maturities (1-14 days)
- v) Other options : MSS bonds

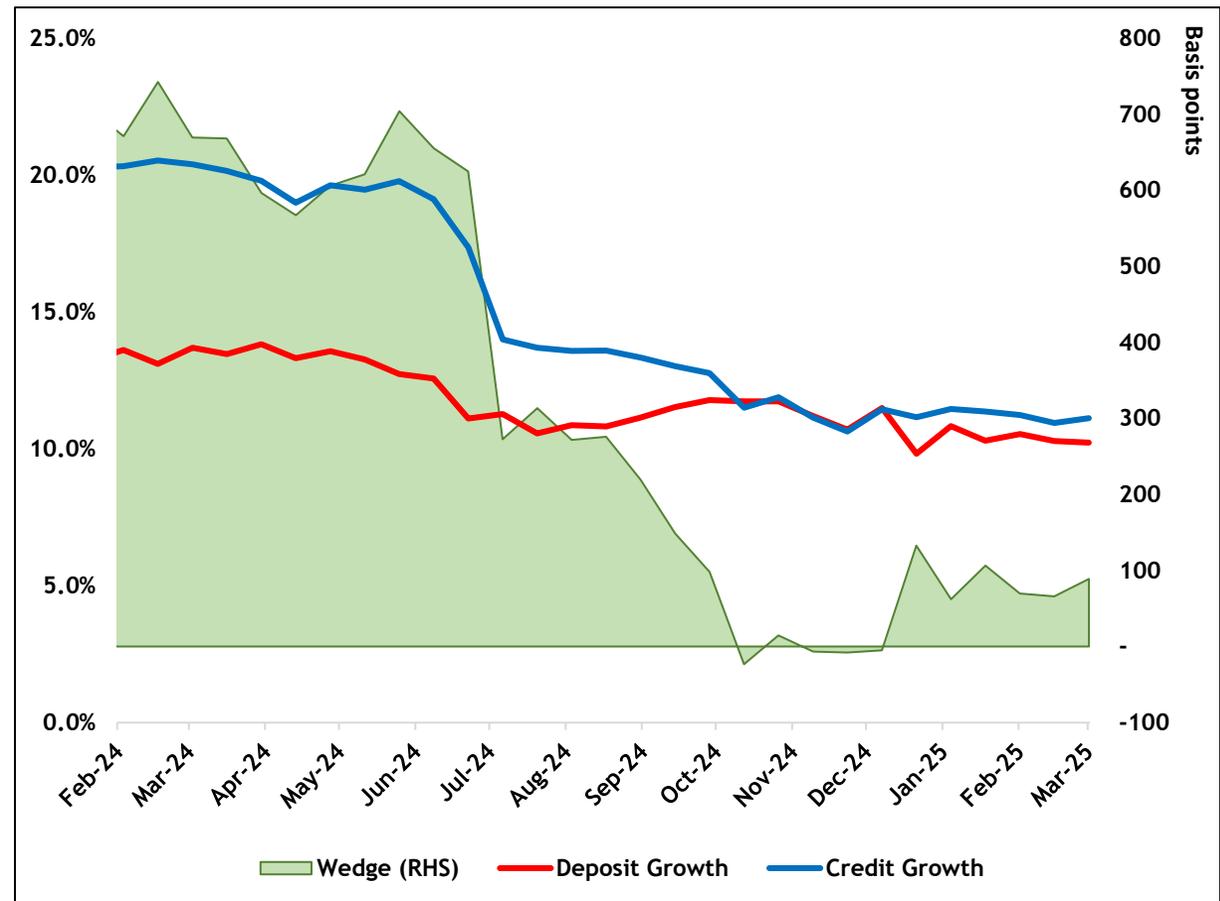
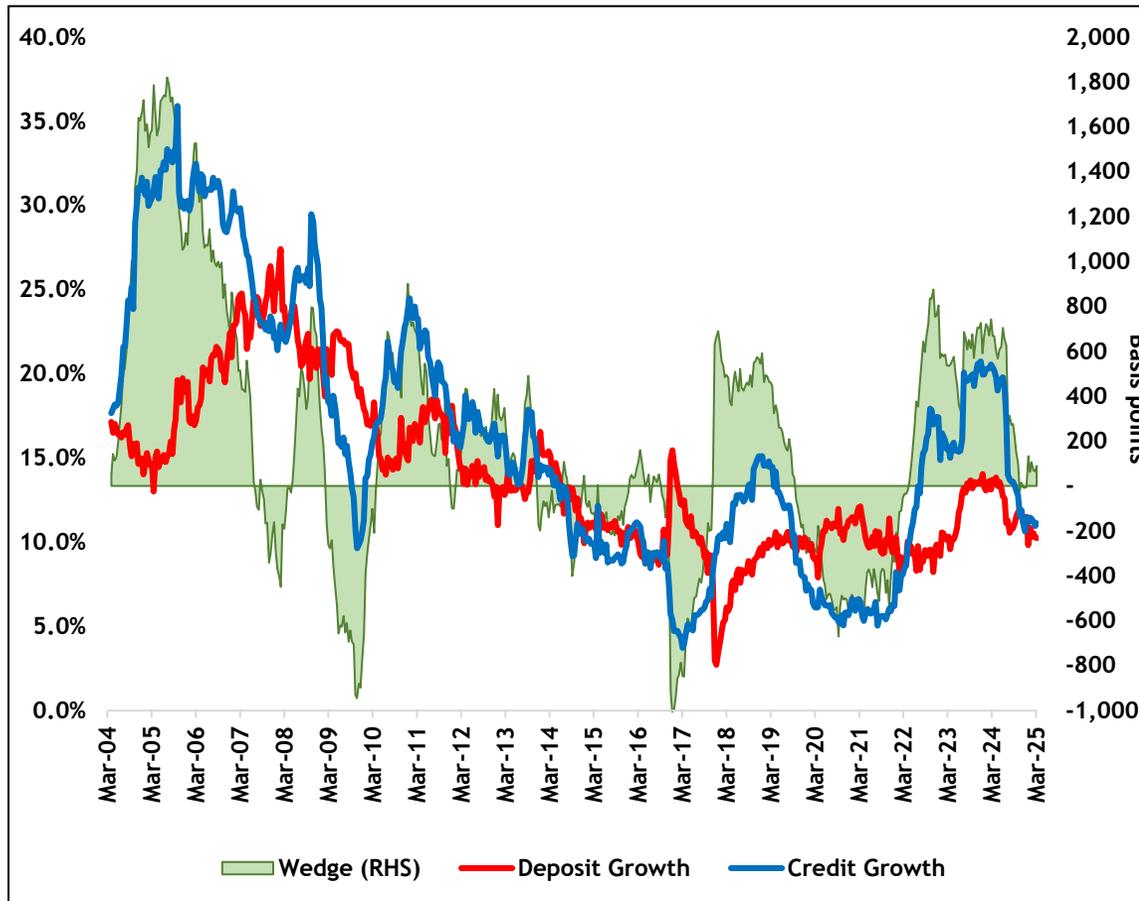
Great divide between 'Haves' and 'Have Nots' in the banking system



Average liquidity balance for the banking system in Mar'25 had deficit of Rs. 1.24 lakh crore, while banks with surplus liquidity parked Rs. 1.46 lakh crore in SDF with the RBI showing the divide between Haves' and 'Have nots'.

Source : RBI & UBI research

While credit-deposit growth wedge has narrowed, a gap of ~90bps continues to persist



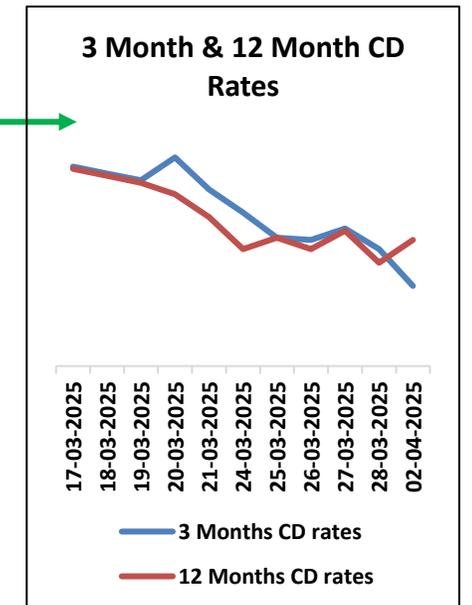
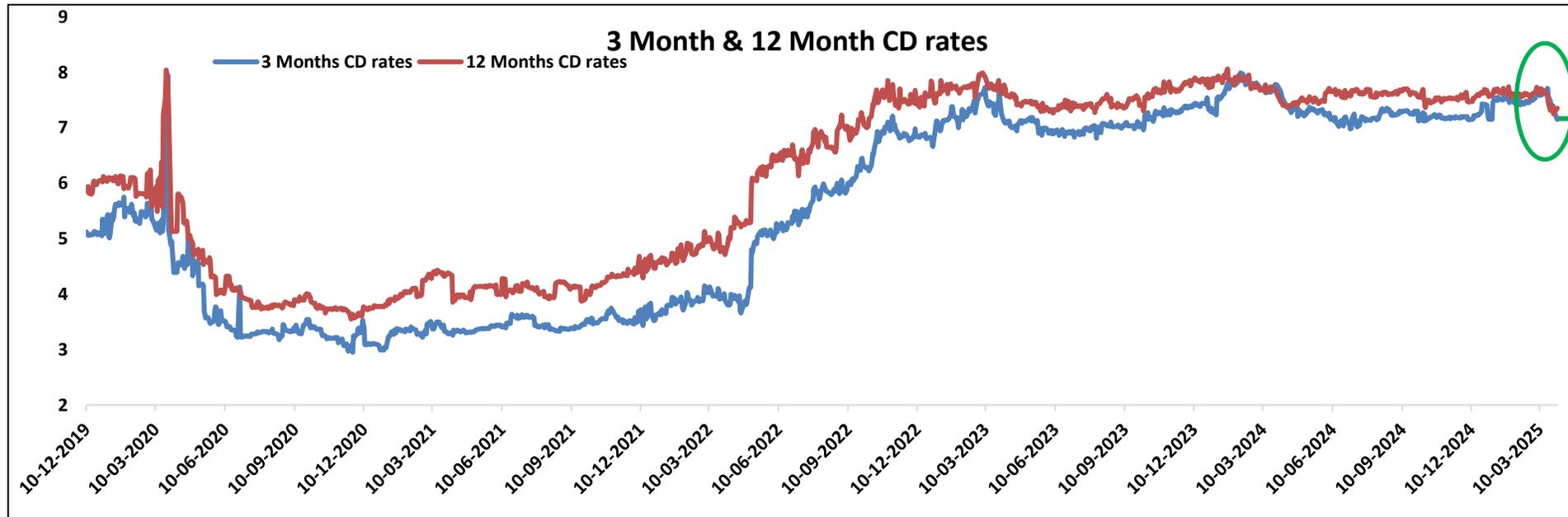
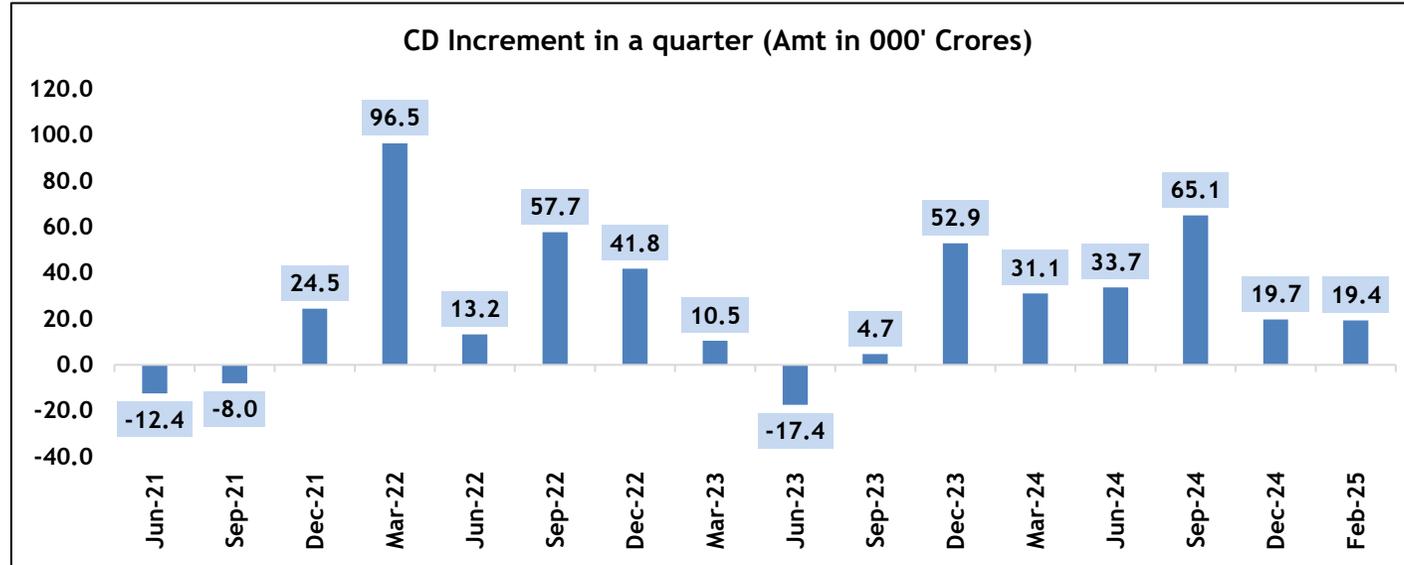
CD ratio for various bank groups shows differential trends

Deposits							Incremental CD Ratio		
	YoY Growth			Share in YoY Incremental			Mar-2020	Mar-2024	Dec-2024
	Mar-2020	Mar-2024	Dec-2024	Mar-2020	Mar-2024	Dec-2024			
PUBLIC SECTOR BANKS	7.3	9.4	8.8	54.6	42.1	48.0	40.8	100.8	101.6
SBI	11.0	11.1	9.8	29.0	19.1	20.9	24.1	95.9	95.6
PSBs EX SBI	5.3	8.4	8.2	25.6	23.0	27.1	59.9	104.9	106.3
PRIVATE SECTOR BANKS	10.0	20.1	13.5	33.7	49.5	43.2	84.0	122.8	75.8
SCBs	8.8	13.6	10.9	100.0	100.0	100.0	56.6	107.7	87.3
Credit									
	YoY Growth			Share in YoY Incremental					
	Mar-2020	Mar-2024	Dec-2024	Mar-2020	Mar-2024	Dec-2024			
PUBLIC SECTOR BANKS	4.1	13.6	12.4	39.41	39.44	55.89			
SBI	3.8	16.3	14.1	12.36	17.01	22.89			
PSBs EX SBI	4.3	12.1	11.4	27.05	22.43	33.00			
PRIVATE SECTOR BANKS	9.2	27.9	10.5	50.12	56.43	37.52			
SCBs	6.3	19.3	11.8	100.00	100.00	100.00			

In Dec-24, PVBs incremental Credit share declined as the Rs 5 lakh cr effect of HDFC Merger faded away

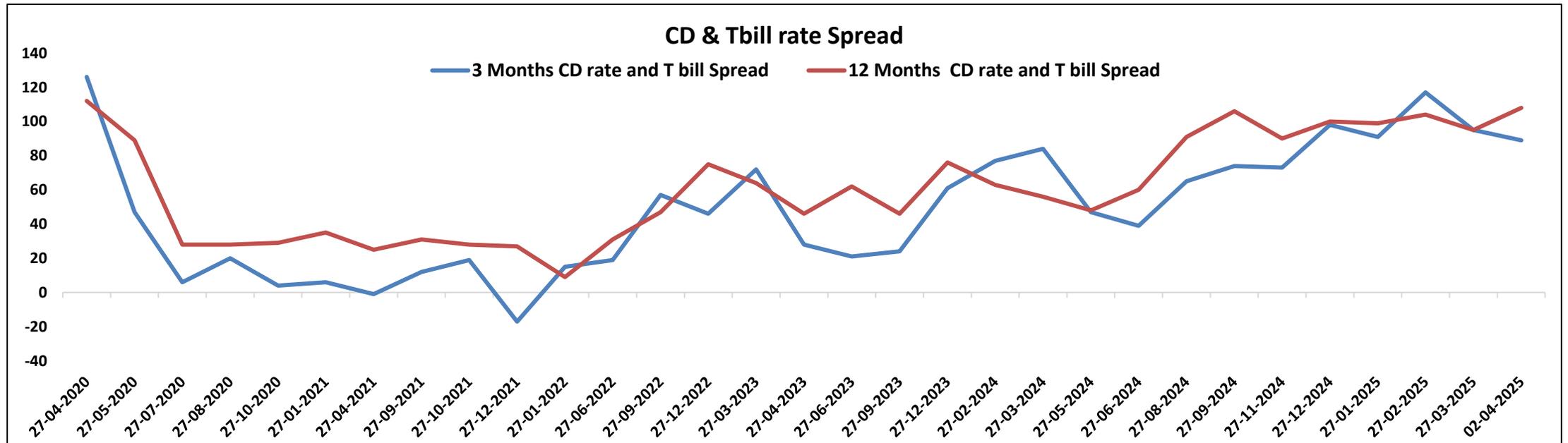
Source : RBI & UBI research

Funding rates and spreads stay elevated as 'Have Nots' command pricing power (1)



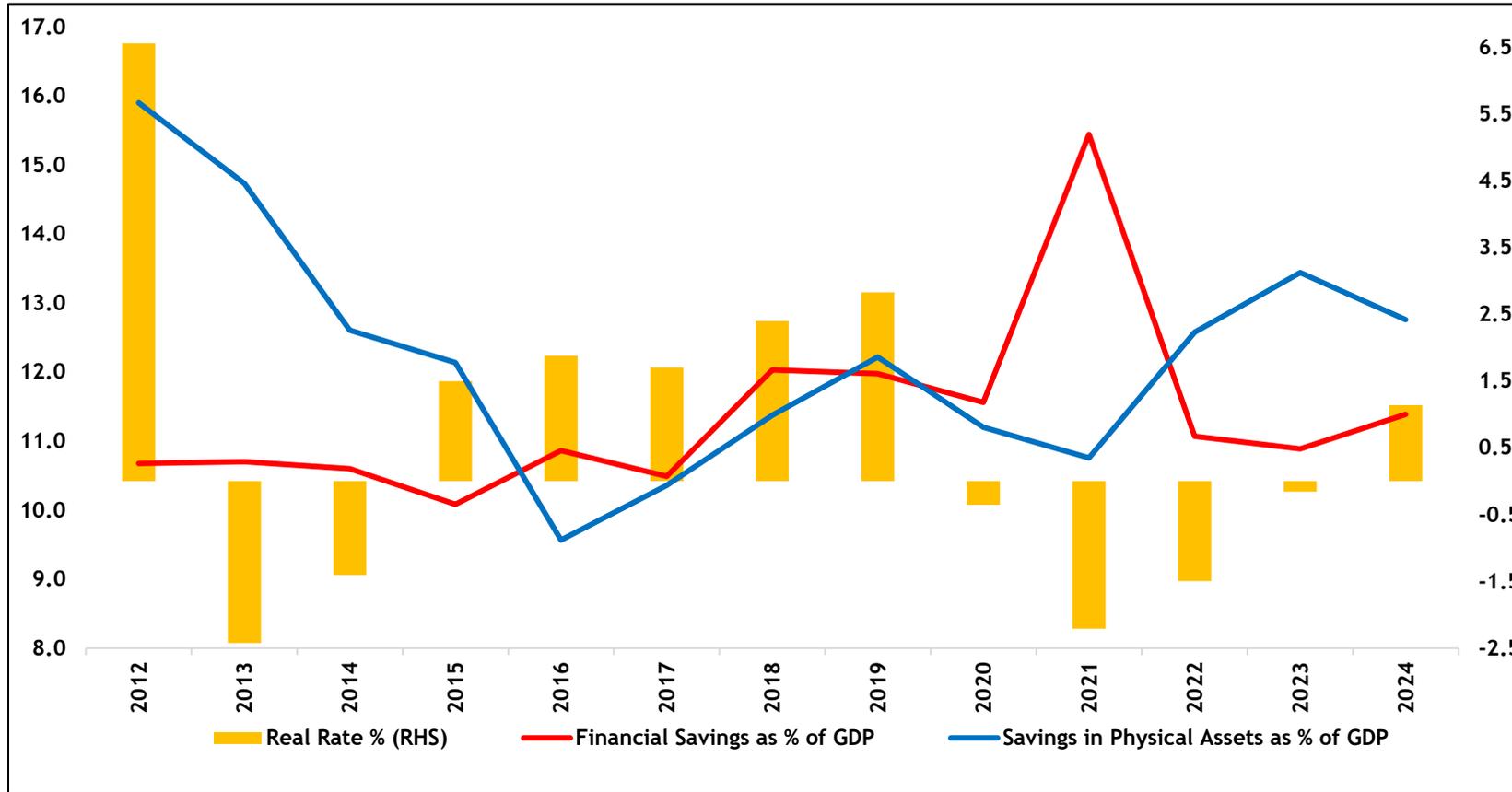
Bank segment wise net issuances of Certificate of Deposits

	FY23	FY24	FY25
PSBs	104300	42429	88381
PSB ex-SBI	100750	47979	91381
PVBs	87333	28670	81748
Total	191633	71099	170129



Source: RBI, CCIL, UBI Research

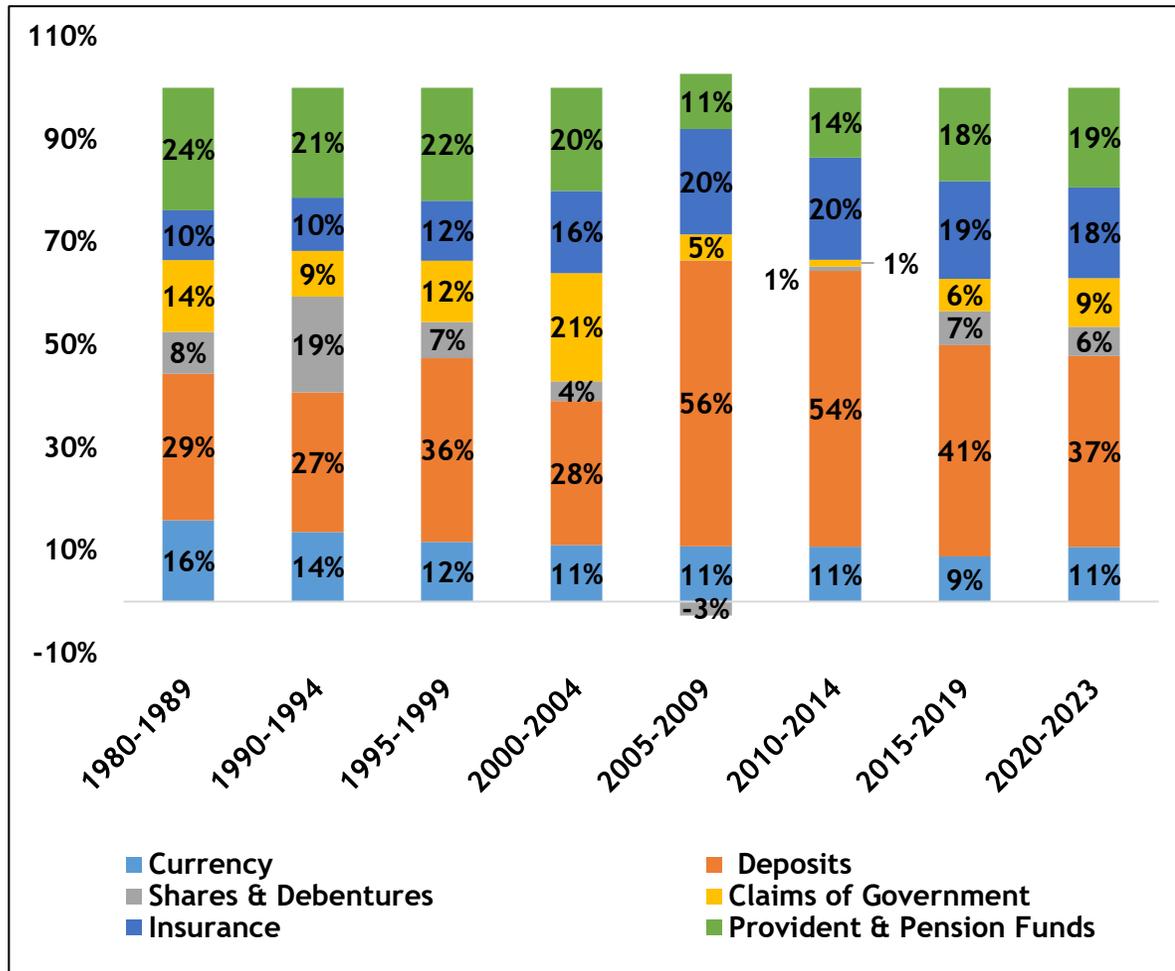
Low real rates led the share of Households' physical savings in FY23 to worst levels since taper tantrum while trends reversed in FY24



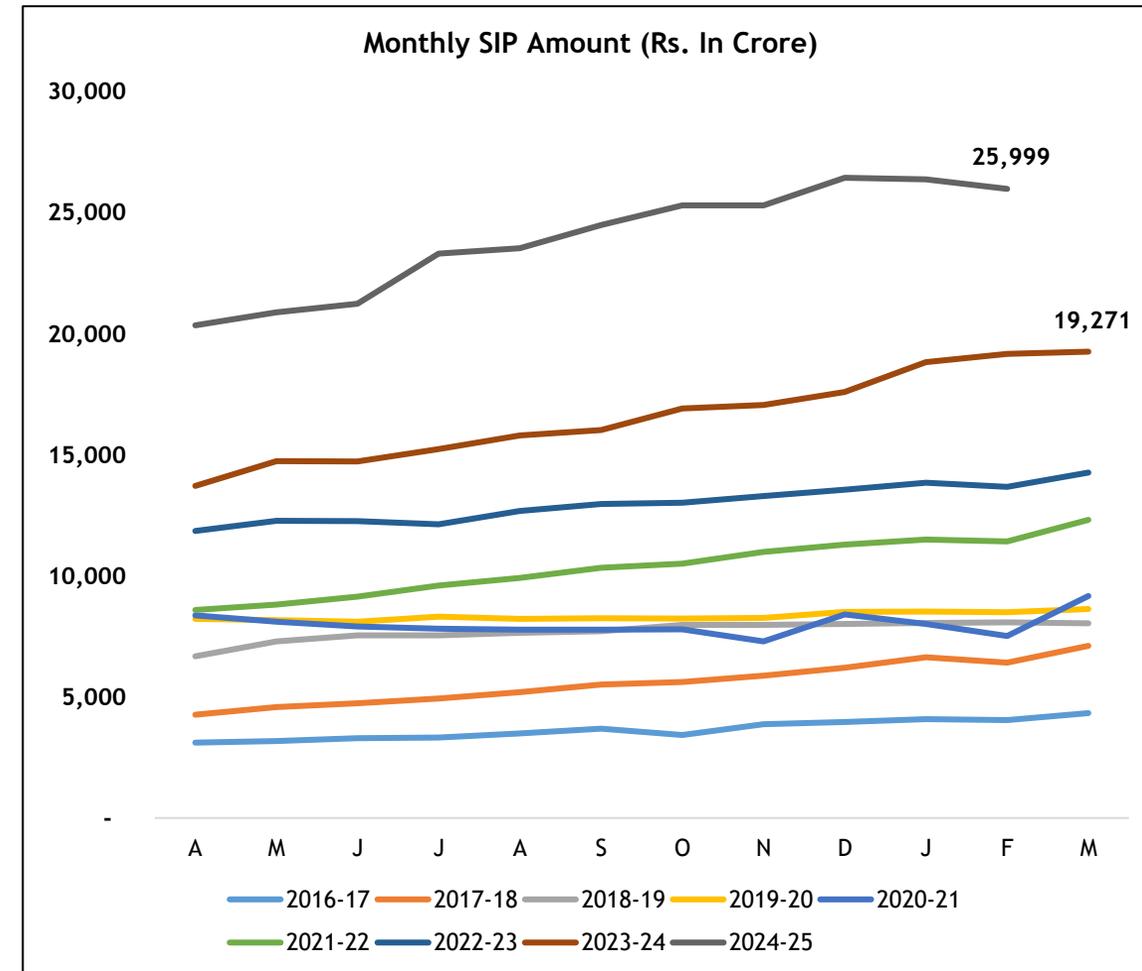
Interestingly, In 2023, share of physical savings in total household savings at 70% is similar to taper tantrum period which also saw a loud call for higher real rates. The latter has reversed now affecting household savings mix.

As per RBI [research](#), estimate of the natural rate is at 1.4-1.9 per cent. When the policy rate is set below the natural rate, the stance is regarded as accommodative, and the converse signifies a restrictive stance. The policy stance is neutral when the real policy rate is at the level of the natural rate. With FY26 CPI inflation expected at c 4.0-4.20 % , we see scope for another 50-75 bps rate cut by the RBI led MPC by August 2025.

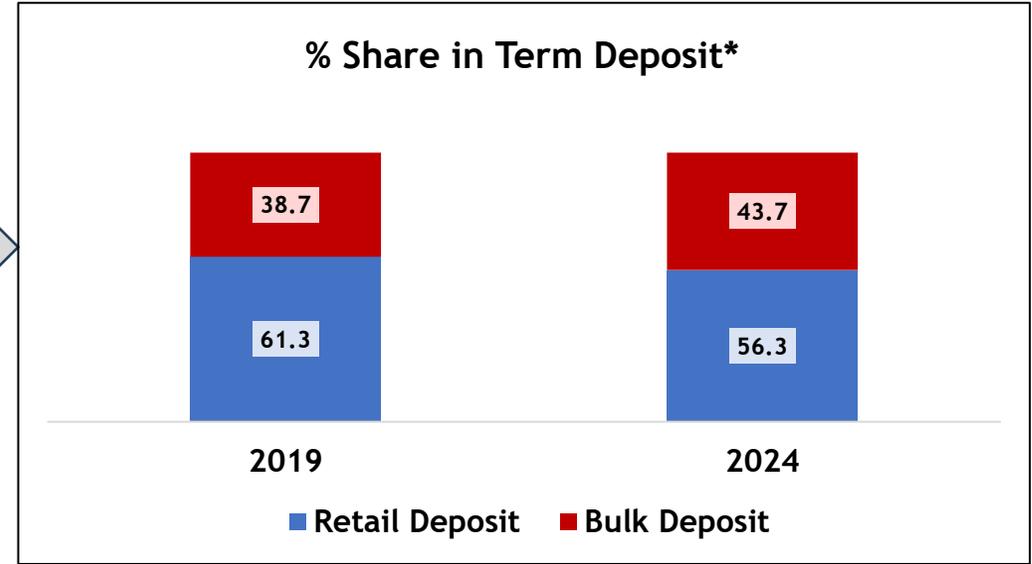
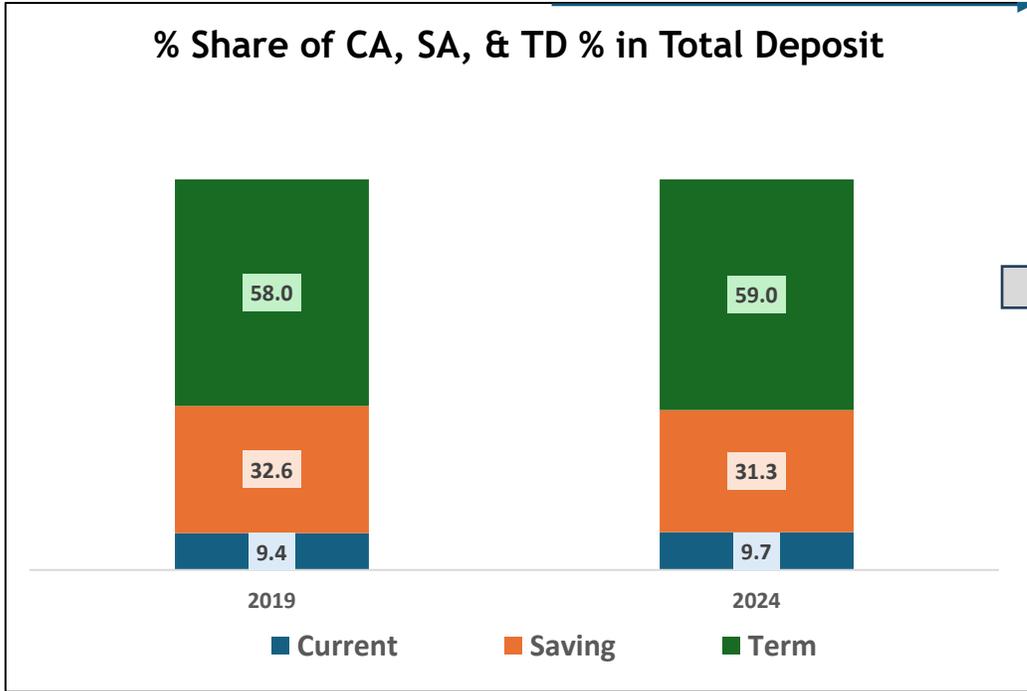
Share of bank deposits in Household financial savings on a downtrend



Mutual Funds has seen record flows clocked in FY25 (Rs. Crore)



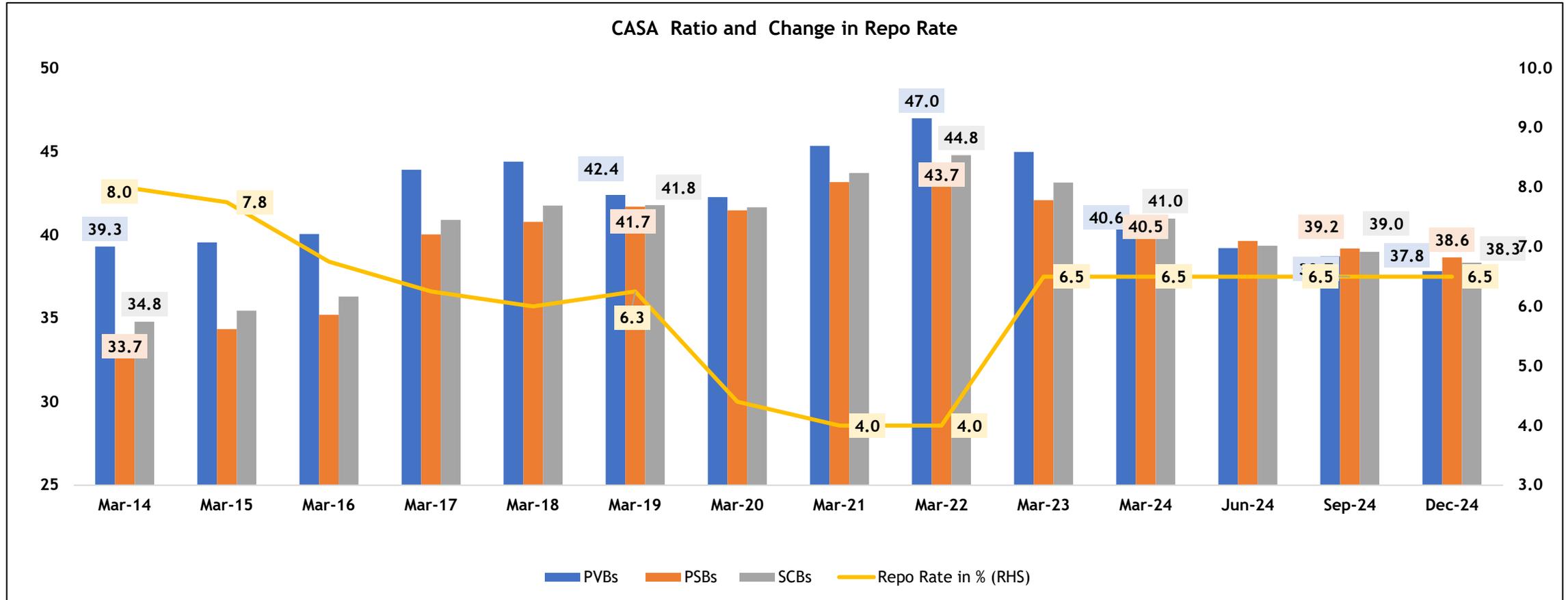
Source: RBI, CEIC, AMFI, UBI Research



	CA	SB	Retail Term Deposit@			Bulk Deposit#
Interest Rate	0	3.0	PVT	PSB	SCB	7.57
			6.88	7.06	6.95	

*RTD: less than 1 crore; Bulk: greater than 1 crore
 @ = Average of Weighted average term deposit rate O/S rupee for last 12 months
 # = Bulk Deposit rate : Average of one year CD rate for last 12 months
 Source: RBI, CEIC, UBI Research

CASA ratio rises in policy easing cycle yet it may not be the case this time round



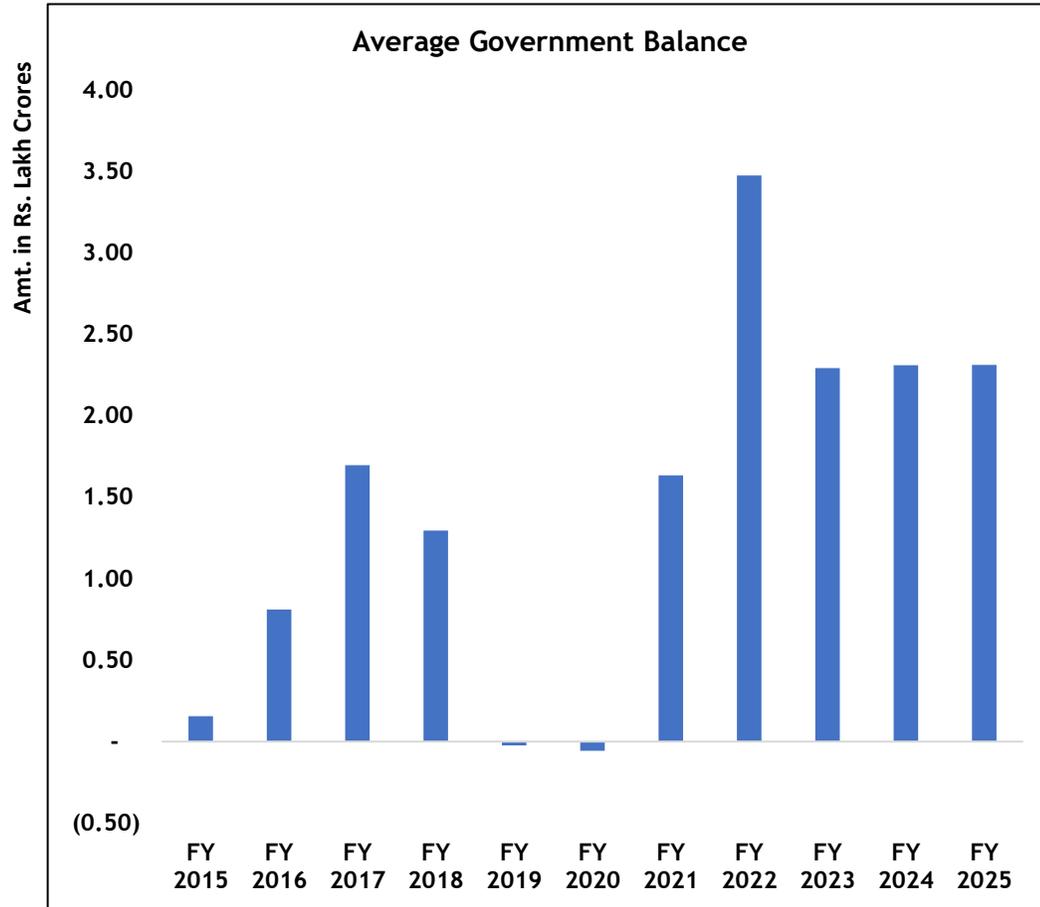
- Historically, CASA ratio across Bank groups (PVBs, PSBs and other SCBs) drops during rising Repo Rate cycle & faces upward pressure during Repo rate cut cycle.
- The shift of Household financial savings away from bank deposits toward equities, MFs, Insurance & other wealth management products likely to keep CASA under pressure.

Borrowings have started to play a key role in banks' funding plans

FY	Deployment (Rs Lakh Cr)		Source (Rs Lakh Cr)		Incremental		YoY Growth %		
	Credit	Investment	Deposit	Borrowings	Credit to Deposit ratio	Credit to Deposit plus borrowings ratio	Credit	Deposit	Borrowings
FY04	1.12	1.30	2.24	0.12	49.9	47.4	15.3	17.5	95.2
FY05	2.60	0.62	1.96	0.45	132.6	107.9	30.9	13.0	181.8
FY06	4.07	-0.22	4.09	0.14	99.5	96.3	37.0	24.0	19.6
FY07	4.24	0.74	5.03	0.03	84.3	83.9	28.1	23.8	3.2
FY08	4.31	1.80	5.85	0.21	73.6	71.1	22.3	22.4	24.1
FY09	4.14	1.95	6.37	0.07	64.9	64.2	17.5	19.9	7.0
FY10	4.69	2.18	6.59	-0.10	71.2	72.3	16.9	17.2	-8.5
FY11	6.97	1.17	7.15	0.27	97.5	93.9	21.5	15.9	26.0
FY12	6.70	2.36	7.01	0.75	95.5	86.3	17.0	13.5	57.2
FY13	6.49	2.68	8.41	0.15	77.1	75.7	14.1	14.2	7.4
FY14	7.34	2.07	9.55	-0.01	76.8	76.9	13.9	14.1	-0.3
FY15	5.42	2.79	8.28	0.05	65.5	65.1	9.0	10.7	2.2
FY16	7.13	1.34	7.94	0.73	89.8	82.2	10.9	9.3	32.4
FY17	5.92	4.05	14.30	0.17	41.4	40.9	8.2	15.3	5.8
FY18	7.84	2.87	6.68	0.49	117.3	109.2	10.0	6.2	15.6
FY19	11.46	0.63	11.48	0.13	99.9	98.8	13.3	10.0	3.4
FY20	5.99	3.66	9.94	-0.69	60.3	64.8	6.1	7.9	-18.2
FY21	5.79	7.15	15.46	-0.65	37.4	39.1	5.6	11.4	-21.1
FY22	9.42	2.66	13.52	0.31	69.7	68.1	8.6	8.9	12.5
FY23	17.84	6.86	15.79	1.71	113.0	102.0	15.0	9.6	62.2
FY24	27.57	6.91	24.31	3.29	113.4	99.9	20.2	13.5	73.9
FY25*	16.96	6.31	20.35	1.65	83.4	77.1	10.3	9.9	21.3

*FY25 Till 7th March 2025

Govt balance has seen a threshold shift probably on implementation of 'Just in Time'



High volatility in govt balance with RBI has been a key drag on liquidity dynamics

Month	Avg. Liquidity	Avg. Govt. Bal.*	Avg. Core Liquidity	VRR	VRRR
Apr-23	1.19	-0.61	0.58	-	-1.45
May-23	0.66	0.94	1.59	0.47	-0.08
Jun-23	1.20	1.55	2.75	0.75	-2.15
Jul-23	1.47	2.10	3.57	-	-5.58
Aug-23	1.06	1.70	2.76	-	-0.57
Sep-23	-0.17	2.58	2.41	-	-0.25
Oct-23	-0.47	3.52	3.05	-	-0.12
Nov-23	-0.55	2.98	2.43	-	-0.43
Dec-23	-1.03	3.18	2.15	4.50	-0.22
Jan-24	-2.07	3.76	1.69	7.50	-
Feb-24	-1.86	3.52	1.66	6.85	-1.76
Mar-24	-0.39	2.51	2.12	4.66	-2.68
Apr-24	0.20	1.50	1.70	3.22	-2.29
May-24	-1.38	3.43	2.05	8.80	-0.26
Jun-24	-0.55	4.02	3.47	3.50	-0.44
Jul-24	1.03	2.74	3.77	-	-4.93
Aug-24	1.51	2.42	3.93	-	-5.51
Sep-24	1.01	3.07	4.08	2.08	-3.63
Oct-24	1.50	2.34	3.84	0.25	-5.41
Nov-24	1.39	0.78	2.16	1.00	-6.26
Dec-24	-0.68	1.47	0.79	9.36	-
Jan-25	-2.04	1.67	-0.37	19.91	-
Feb-25	-1.67	1.63	-0.04	20.90	-
Mar-25	-1.24	2.68	1.44	10.57	-

*Data estimated available on Weekly Basis

Source: RBI, CEIC, UBI Research

RBI must be complimented for liquidity measures supporting switch in banking system liquidity to surplus

RBI liquidity measures since Jan'25 have totaled more than Rs 7.5 lakh crore

Measure	Mode	Date	Amount (Rs. In Lakh Crore)
OMO Purchases	NDS-OM	Jan-25	0.39
OMO Purchases	Auction	30-Jan-25	0.20
		13-Feb-25	0.40
		20-Feb-25	0.40
		12-Mar-25	0.50
		18-Mar-25	0.50
		25-Mar-25	0.45
		01-Apr-25	0.80*
Term Repo Auction	56-Day VRR	07-Feb-25	0.50
	49-Day VRR	14-Feb-25	0.75
	45-Day VRR	21-Feb-25	0.58
USD/INR Buy/Sell SWAP	6 Month	31-Jan-25	0.44
	3 Years	28-Feb-25	0.88
	3 Years	24-Mar-25	0.86
Total			7.65

*Announced for Apr'25 in four tranches
Source: RBI, UBI Research

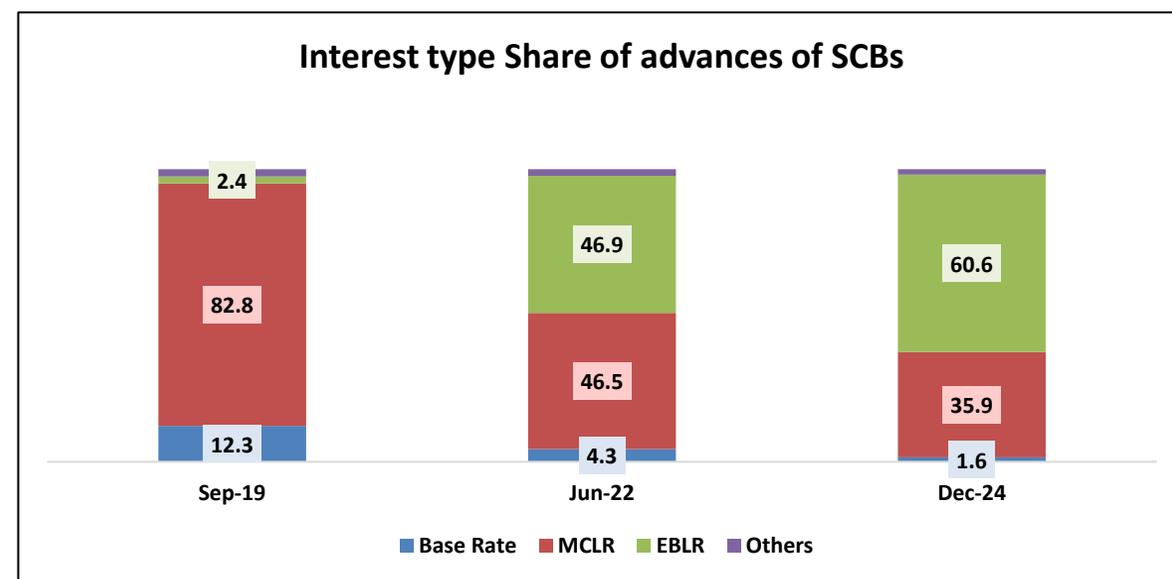
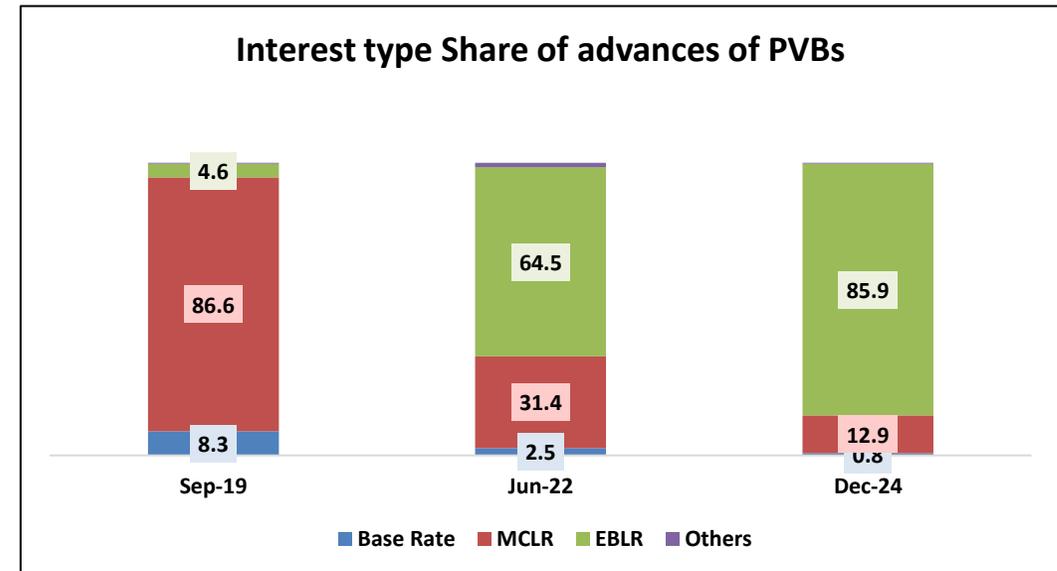
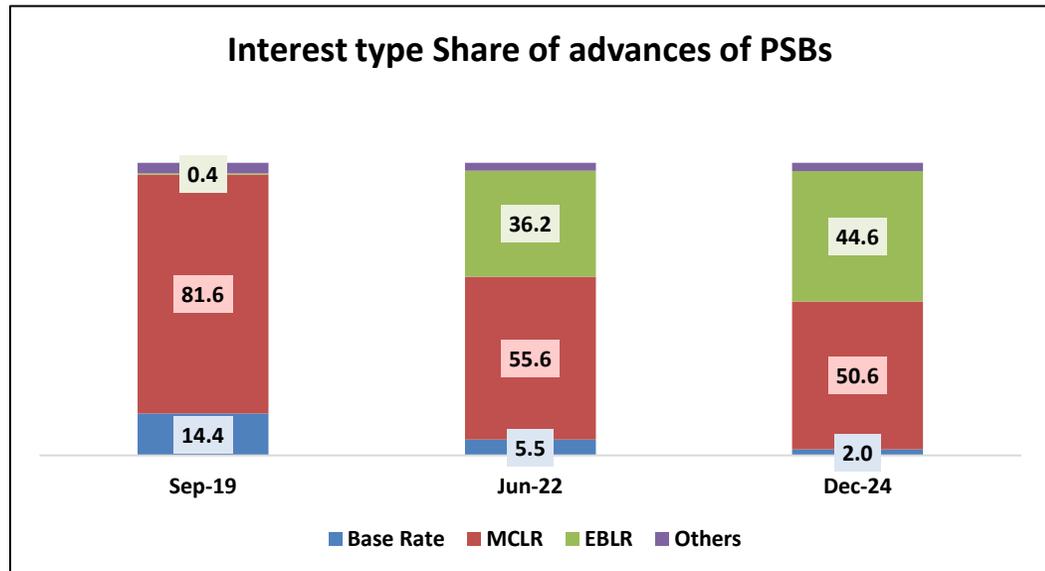
Banking system liquidity likely to stay comfortable in FY26 unless FX plays spoilsport

INR Lakh Crore	Systemic Liquidity Balance	Govt. Balance with RBI	LTRO	Core Liquidity	Spot Fx Intervention	OMOs	RBI Dividend	CIC	CRR
FY22	7.18	0.35	0.87	8.40	1.35	2.14	0.99	2.77	2.01
FY23	1.51	-0.49	0.73	1.76	-2.17	-0.35	0.31	2.43	1.65
FY24	0.54	2.00	0.07	2.61	3.40	-0.19	0.87	1.33	1.28
FY25 YTD*	-2.36	3.47	-	1.11	-3.97	2.15	2.11	2.03	-0.31
FY 25 Est.\$	1.21	1.20#	-	2.41	-3.20	2.83	2.11	2.09	-0.21
FY 26 Est.	0.0 to 1.00	1.17	-	1.17 to 2.17	-	1.00	2.50	2.25	1.50

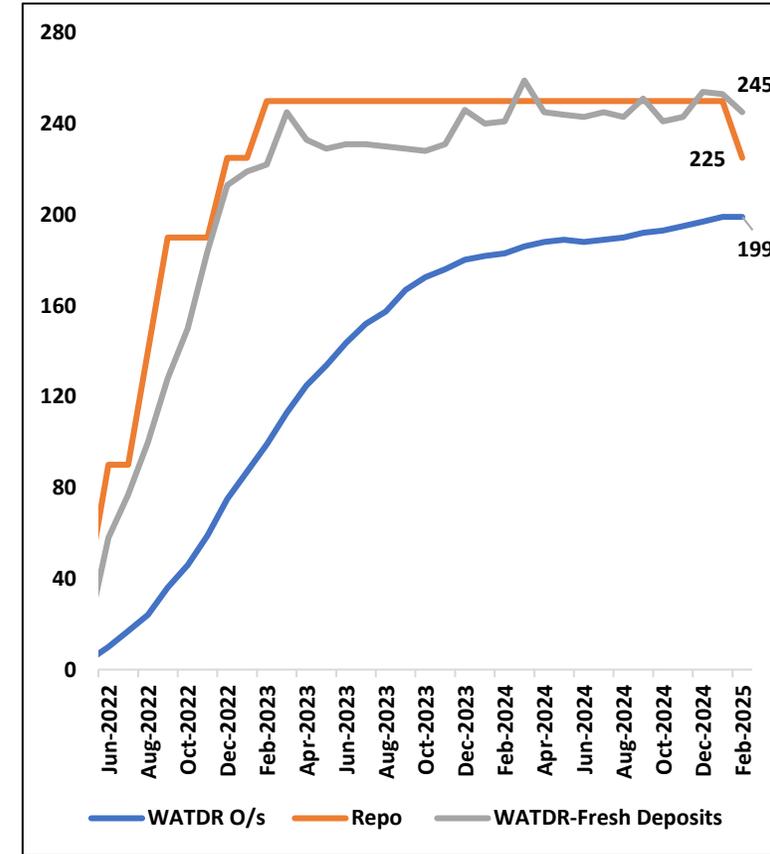
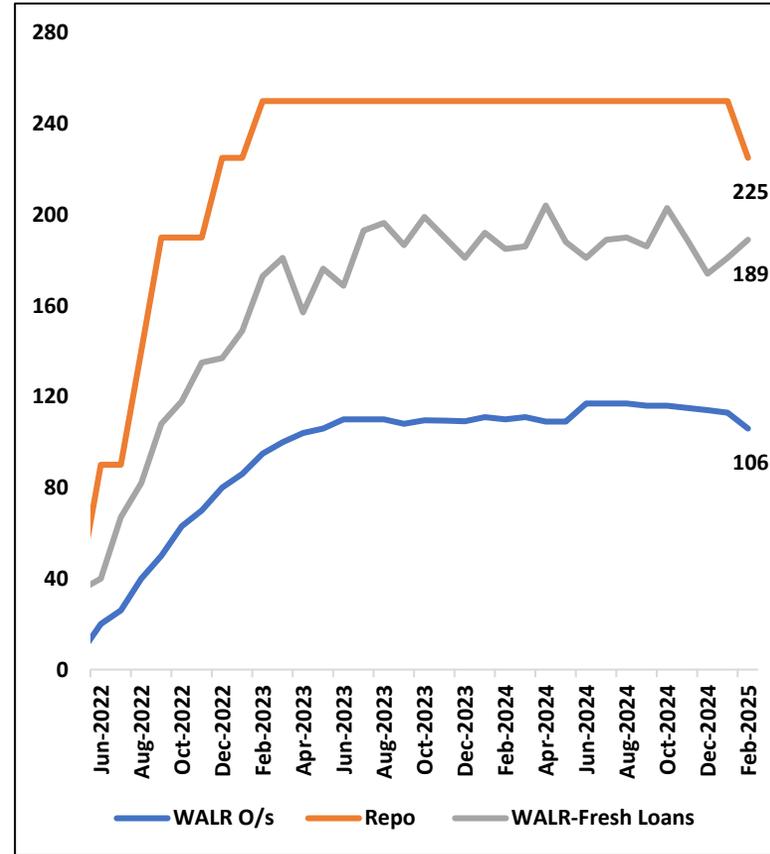
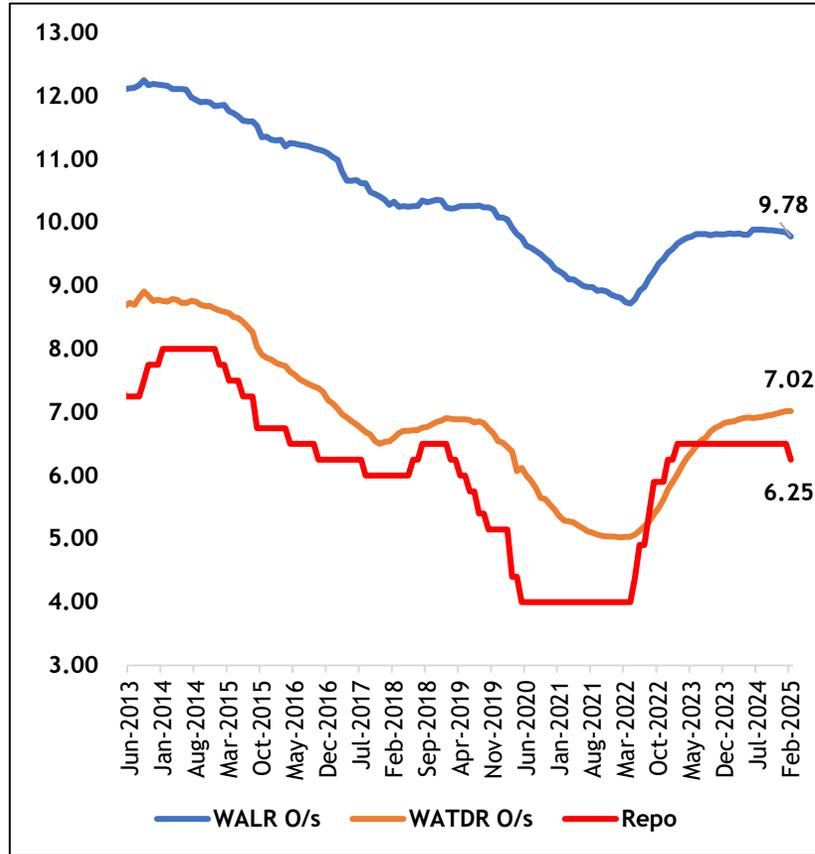
Key risk to watch

*as of 21st Mar'25;
in line with Budget Estimates;
\$ FY25 projection are tentative est.
Source: CEIC, UBI research

Transmission timelines may vary for PVBs & PSBs due to difference in proportion of EBLR and MCLR loans



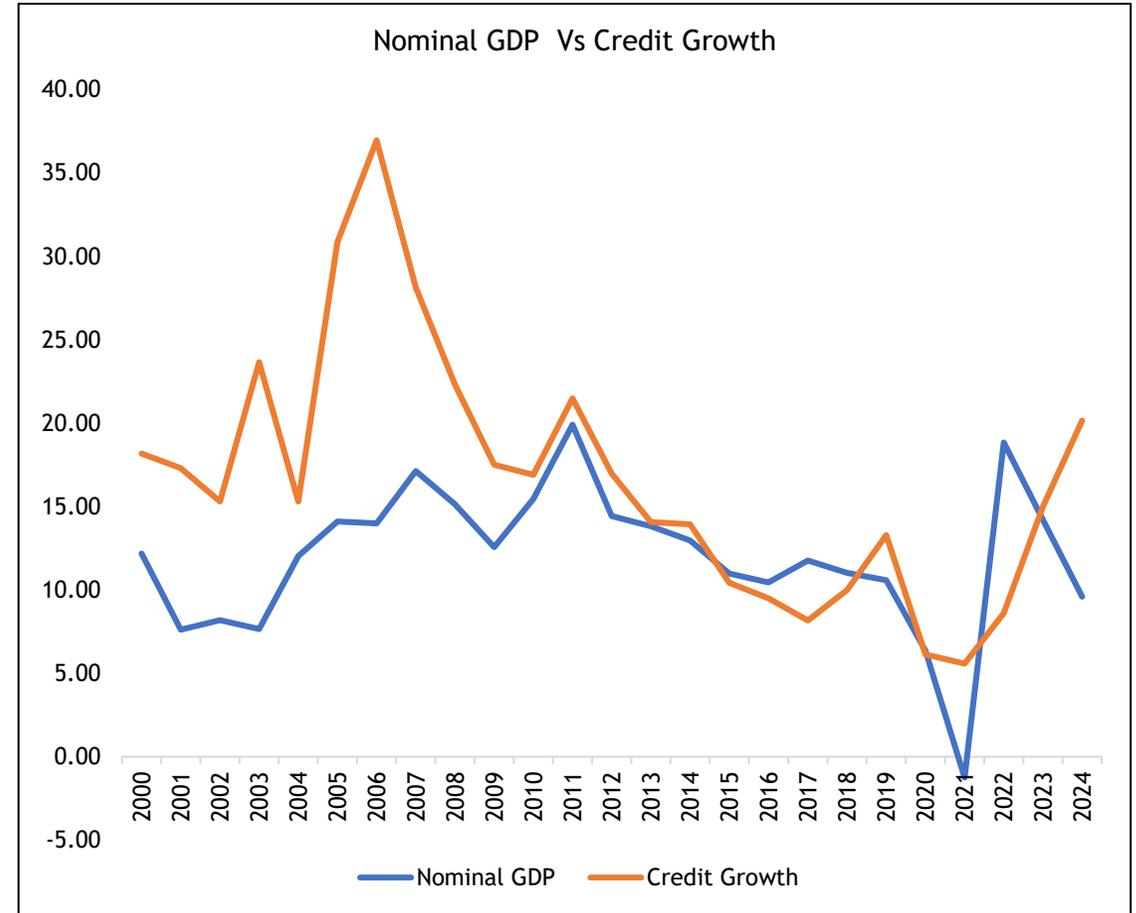
Despite RBI efforts, transmission into lending and deposit rates is lagged and differentiated across banks



Busy season not looking so busy with both credit and deposit accretion taking a hit

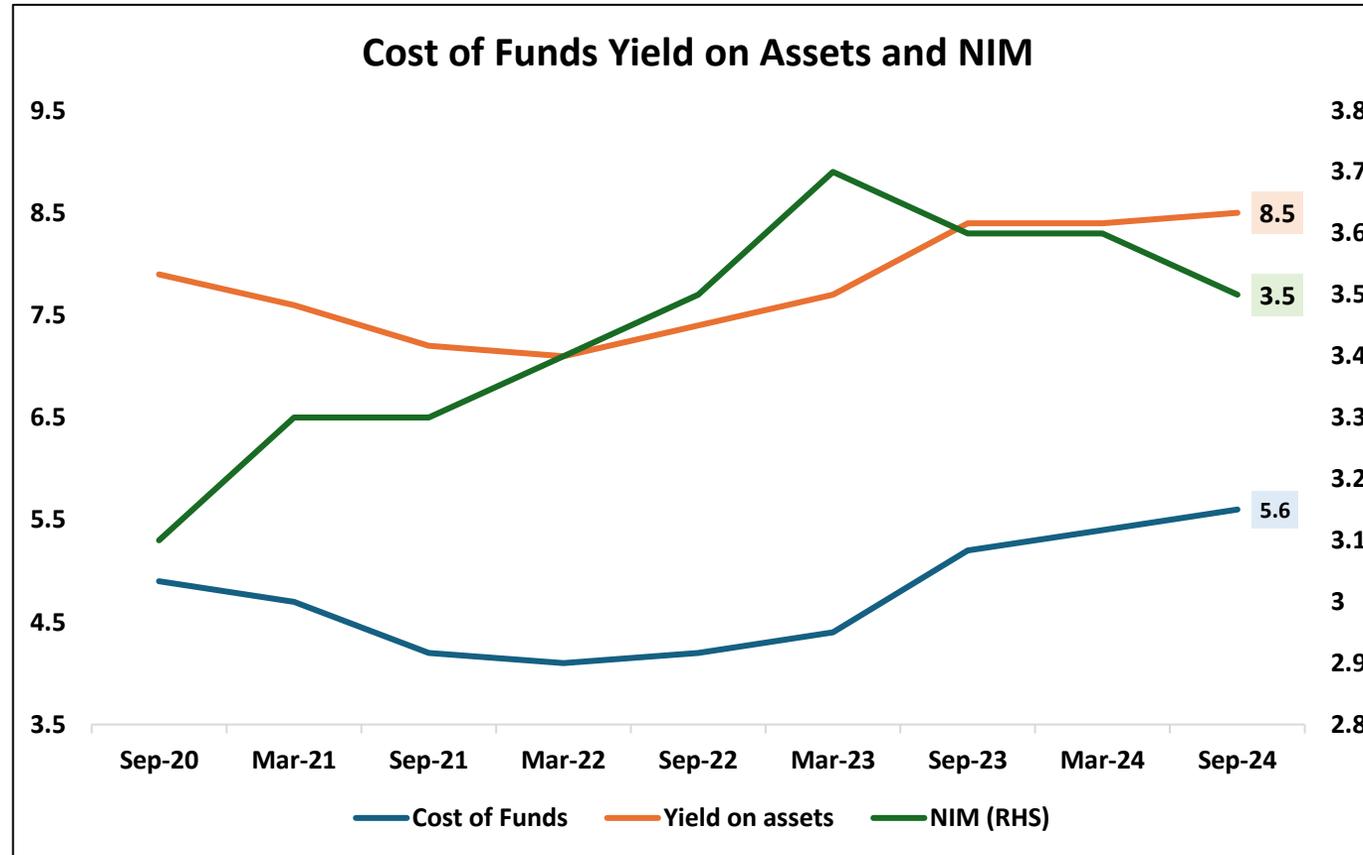
Rs. lakh crore	Deposit Accretion	Credit Accretion
28-Sep-18 to 15-Mar-19	4.28	5.75
27-Sep-19 to 13-Mar-20	4.33	3.72
25-Sep-20 to 12-Mar-21	6.93	5.24
24-Sep-21 to 11- Mar-22	0.24	0.44
23-Sep-22 to 10-Mar-23	9.26	9.19
22-Sep-23 to 08-Mar-24*	11.76	12.23
20-Sep-24 to 07-Mar-25	10.04	10.04

RBI analysis shows absence of causality from credit to output growth, hence demand for credit contingent on pickup in economic activity



*excluding HDFC merger effect; Source: RBI, UBI Research

Best of Bank NIMs behind us on shift in deposit profile for banks



Thank You !

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